

2008 London Corporate Accountability Conference

IFRS and Current Financial Reporting Issues

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Agenda

- IFRS - A U.S. Preparer's Perspective
- Current Financial Reporting Issues

IFRS - A U.S. Preparer's Perspective

Discussion Topics:

- The Case for International GAAP
- IFRS vs. U.S. GAAP - High Level Comparison
- Environmental Pre-Conditions
- Transition Planning

The Case for International GAAP

- The case for one set of high quality worldwide accounting standards is compelling - long term.
- A common business language.
- Reduces complexity and costs.
- Facilitates international trading.
- Comparability is enhanced.

On the downside:

- For U.S. multinationals it will be expensive.
- Unlike Y2K, uncertainty as to "when" is a big issue.

IFRS vs. U.S. GAAP - High Level Comparison

Attribute	IFRS	U.S. GAAP	Comment
Philosophy	Primarily Principles Based	Also principles but plenty of rules	"What would we do without rules?"
Diversity	Acceptable within tolerable limits	Frowned upon	Diversity is coming to the U.S.
Judgment	Greater use	Lesser use	More judgments will be inevitable.
Subsequent Guidance	Limited	Considerable	Need to get used to less.
Exceptions in Standards	Infrequent	Somewhat commonplace	Will become Rarer.
<i>Example:</i> Revenue Recognition	2 standards	150+ standards	Is less "more"?

Environmental Pre-Conditions

There are many prerequisites to an effective U.S. deployment of IFRS, e.g.:

- FASB - IASB need to be further along on convergence.
- Development of common, worldwide auditing standards.
- Development of an international regulatory and enforcement scheme.
- Emergence of professional competencies at all levels - college, auditor, preparer, regulator, user.
- Systems and preparer infrastructure - costs and other concerns.

Transition Planning

- A typical U.S. Multinational:
 - Leaves statutory accounting to countries.
 - At HQ, has limited knowledge of local requirements.
 - Locals books organized to firstly achieve parent's needs.
 - ✚ Statutory reporting is secondary
 - Has made only limited investment in statutory infrastructure.
 - Statutory accounts not usually in SOX404 scope or other internal control programs.
 - Frequently relies on third parties for statutory expertise.

Transition Planning - cont'd

For large U.S. Multinationals, conversion to IFRS, will be a major undertaking with unintended consequences. For example:

- Tax:**
 - ✦ Statutory book/tax conformity could change as IFRS deploys
 - ✦ Impact on taxable income
 - ✦ LIFO

- Treasury:**
 - ✦ IFRS could affect capital adequacy and distributable reserves which impact debt agreements
 - ✦ Greater use of fair value adds volatility

- Systems:**
 - ✦ Investment funding and IT prioritizations

- Control:**
 - ✦ Contract language to achieve a certain reporting result may need change
 - ✦ Costs – more volatility and less smoothing
 - ✦ Revenues – some simplification

Current Financial Reporting Issues

Current Financial Reporting Issues

Discussion Topics:

- The Road to Convergence
- Committee for Improvements in Financial Reporting
- Financial Statement Presentation
- Materiality and Restatements

The Road to Convergence

- In time, IASB will have worldwide primacy for new accounting standards.
- To be determined - role of FASB and other national standards setters for private and not-for-profit organizations.
- Converged standards \neq word for word conformity.
- What happens to 75 years of U.S. based rule development?
- Timeline:
 - Mandatory - several years or more?
 - Voluntary - much quicker?
- SEC rule making timeline - TBD and key.
- Not all U.S. constituencies will agree to dropping U.S. GAAP.

The Road to Convergence - cont'd

- Convergence projects between IASB and FASB are numerous. Representative examples:

Areas Not Converged	Some Convergence Today
Consolidation Policy	Subsequent Events
Impairments	Taxes
Provisions	Leases
Intangible Assets	Revenue Recognition
Financial Statement Presentation	Financial Instruments
	Employee Benefits
	Interim Reporting

- Sometimes FASB leads; sometimes IASB; sometimes co-lead.
- Numerous untouched areas to-date e.g. hyperinflation.

Committee for Improvements in Financial Reporting (CIFR)

- Sponsored by the Securities Exchange Commission.
- Goal is to develop actionable recommendations to improve the U.S. financial reporting system.
- One year charter - ends 3Q2008.
- Four subcommittees:
 - ✦ Substantive Complexity
 - ✦ Standards Setting Process
 - ✦ Audit Process
 - ✦ Delivering Financial Information
- There is a similar committee studying the Auditing Profession.

Committee for Improvements in Financial Reporting (CIFR)

Initial Recommendations/Other
[Tables are representative and not all inclusive]

Complexity	Auditing Process
<ul style="list-style-type: none"> ✦ Base GAAP on business activity - not industries ✦ No promulgated alternative GAAP. <p>In Process:</p> <ul style="list-style-type: none"> ▶ Disclosure framework ▶ Use of bright lines 	<ul style="list-style-type: none"> ✦ Materiality ✦ Professional judgment
Standards Setting	Delivery
<ul style="list-style-type: none"> ✦ Additional investor representation ✦ Greater SEC role in FASB governance and agenda ✦ Refine procedures: <ul style="list-style-type: none"> ▶ Field testing ▶ Post adoption reviews 	<ul style="list-style-type: none"> ✦ XBRL ✦ Improved use of Corporate Websites ✦ Quarterly earnings releases

Financial Statement Presentation

- There is no overall U.S. GAAP framework for what the primary financial statements should look like.
- Viewed as one of the most important FASB projects and critical to convergence. Preliminary Views expected in 2008.

Work in process proposals:

- All three F/S to have same look and feel: Operations, Financing, Investing, Discontinued Operations.
- Uncertain how to handle taxes.
- Disaggregation of EPS by activity.
- No total revenue.
- Reconciliation by line item of P&L to Cash Flow Statement.
- P&L line item content (i.e. labor, depreciation, etc.) details disclosed.

Materiality and Restatements

- Everyone agrees there are too many restatements.
 - Recent studies conclude few restatements are caused by fraud.
- One root cause is the current materiality requirements, practices and protocols.
- CIFR (with broad based but not unanimous outside support) has recommended modification to the current process to access materiality of errors including:
 - Access based on perspective of reasonable investor.
 - Assess based on impact of error on total mix of information.
 - Recognize that all large \$ errors are not always material.
 - Interim restatements are not necessarily mean annual restatements.
 - Greater frequency of corrections in current period.

Thank You

Q&A

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